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Department of State **TELEGRAM**

SECRET 593

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51-41
ACTION SS-45

INFO OCT-01 SSO-00 NSCE-00 CCO-00 /046 W
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O R 281544Z SEP 70
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC IMMEDIATE 6954
INFO USINT ALGIERS
AMEMBASSY BEIRUT
AMEMBASSY BONN
AMCONSUL DHAHRAN
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
RUDTCCK/AMEMBASSY LONDON 1308
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TEHRAN
AMEMBASSY THE HAGUE
USMISSION OECD PARIS
USMISSION EC BRUSSELS
RUFHNA/USNATO 49
AMEMBASSY BENGHAZI

S E C R E T SECTION 1 OF 2 TRIPOLI 2346

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SUBJ: ESSO'S EASTERN HEMISPHERE OIL SUPPLY STRATEGY

1. ESSO HAS INFORMED LARG AND OTHER OIL COMPANIES IN LIBYA OF 30 CENT INCREASE IN ITS POSTING FOR 40 DEGREE CRUDE EFFECTIVE SEPT 1, 1970 (PRICE NOW $2.53 - CORRESPONDING TO NEW OXY AND OASIS POSTINGS). WE UNDERSTAND FROM AMOSEAS OWNERS (TEXACO AND SOCAL) THAT ESSO ALSO ANNOUNCING 20 CENT INCREASE IN POSTING FOR NORTH IRAQ CRUDE AT BANIAS AND TRIPOLI, LEBANON AND FOR ARABIAN LIGHT AT SIDON VIA TAPLINE. NEW POSTINGS TO APPEAR IN PLATTS OILGRAM OF SEPT 30.

2. [redacted] B4

ACCORDING TO ESSO, EUROPEAN MARKET CONDITIONS FOR SHORT-HAUL MED-

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DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY _____ DATE 8/7/81
PORTIONS DENIED AS INDICATED

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ITERRANEAN CRUDE HAVE CHANGED SINCE JUNE 10, 1970 SUFFICIENTLY TO JUSTIFY 29 CENT INCREASE IN LIBYAN POSTING, AND TWO-THIRDS THAT AMOUNT FOR EASTERN MEDITERRANEAN SOURCES. UNDER TERMS OF LIBYAN PETROLEUM LAW AND ITS CONCESSION, ESSO OBLIGATED TO ADJUST ITS POSTING TO REFLECT CHANGED MARKET PRICES. ONE CENT ADDED TO CONFORM TO NEW POSTING STRUCTURE EVOLVING IN LIBYA [redacted] B4
[redacted] BECAUSE OF HIGHER VALUE OF SHORT-HAUL CRUDE, INCREASED TRANSIT FEES ALSO MAY BE JUSTIFIED FOR TAPLINE, AND FEE INCREASE, OR OTHER FORMULA TO ACCOMMODATE SYRIAN DEMANDS, IS UNDER CONSIDERATION BY TAPLINE OWNERS. WITH RESPECT TO PERSIAN GULF OIL, ESSO ARGUES GULF CRUDES ARE INSULATED FROM CHANGED MARKET STRUCTURE BY INCREASED TRANSPORTATION COST, AND, THEREFORE, NO POSTED PRICE INCREASE IS JUSTIFIED AT GULF TERMINALS.

3. IN DISCUSSING OTHER ASPECTS OF PRICE SETTLEMENT TAKING SHAPE IN LIBYA, ESSO EXPLAINED LIBYAN PACKAGE CONSISTS OF THREE ELEMENTS: A) PRICE INCREASE OF 30 CENTS EFFECTIVE SEPT 1, B) FORWARD COMMITMENT TO ANNUAL 2 CENT PRICE INCREASE FOR FIVE YEARS, AND C) RETROACTIVITY OF 30 CENT PRICE INCREASE TO JAN 1965. ESSO ACCOMMODATING 30 POSTED PRICE INCREASE BECAUSE OF CHANGES IN EUROPEAN MARKET. HOWEVER, SINCE (ESSO ARGUES) POSTING ARE REFLECTION OF EXISTING MARKET CONDITIONS, COMPANY CANNOT COMMIT ITSELF TO FIXED SCHEDULE FOR PRICE ESCALATION, SINCE MARKET BEHAVIOR CANNOT BE PROJECTED, BUT IT IS PREPARED TO ADJUST POSING -- EITHER UP OR DOWN -- AS FUTURE MARKET CONDITIONS WARRANT. SIMILARLY, MARKET CHANGE IS RECENT DEVELOPMENT (ESSO CITED JUNE 10 AS DATE FOR BEGINNING OF CURRENT MARKET ESCALATION. BECAUSE OF TAPLINE CLOSURE AND LIBYAN CUTBACKS), AND THEREFORE, THERE IS NO RPT NO JUSTIFICATION FOR PRICE INCREASE RETROACTIVE TO 1965. (ESSO ALSO SAID IT WAS NOT NOW PREPARED TO CHANGE GRAVITY ALLOWANCE FORMULA. [redacted] B1
[redacted] IF LARG IS UNWILLING TO ACCEPT ESSO ARGUMENT ON PRICE ESCALATION AND RETROACTIVITY, THEN COMPANY WILL CALL FOR ARBITRATION AS PROVIDED BY PETROLEUM LAW.

4. [redacted] B1,

[redacted] B4

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[redacted] PRESENTED ESSO'S ESTIMATE THAT EUROPEAN OIL STOCKS, PLUS PROJECTED SUPPLY, CURRENTLY WERE SUFFICIENT FOR 480 DAYS OF CONSUMPTION AT ANTICIPATED LEVEL -- ASSUMING SUEZ CANAL AND TAPLINE REMAINED CLOSED, LIBYAN PRODUCTION STABILIZED AT 2 MILLION BPD, THERE WERE NO ADDED RESTRICTIONS ON SUPPLY AND NEW TANKER DELIVERIES WERE AS PROJECTED. WITH 2 PERCENT RATIONING IN EUROPE, GREENWALD SAID ESSO ESTIMATED STOCKS AND NEW SUPPLY UNDER SAME ASSUMPTIONS WOULD STRETCH TO 730 DAYS -- BY WHICH TIME TANKER DELIVERIES WOULD CATCH UP WITH TANKER DEMAND. [redacted] B4

5. COMMENT: [redacted] B1, B5

[redacted] B1, B5

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ACTION SS-45

INFO OCT-01 SSO-00 NSCE-00 CCO-00 /046 W
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FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC IMMEDIATE 6955
INFO USINT ALGIERS
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AMEMBASSY BONN
AMCONSUL DHAHRAN
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TEHRAN
AMEMBASSY THE HAGUE
USMISSION/OECD PARIS
USMISSION EC BRUSSELS
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AMEMBASSY BENGHAZI

S E C R E T SECTION 2 OF 2 TRIPOLI 2346

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7. [redacted]

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